

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.204: Changes in accounting periods and in methods of accounting.
(Also Part I, §§ 446, 461, 481; 1.446-1)

Rev. Proc. 2007-14

SECTION 1. PURPOSE

This revenue procedure provides procedures by which a taxpayer may obtain the automatic consent of the Commissioner under § 446(e) of the Internal Revenue Code to change its method of accounting for liabilities for services or insurance to comply with Rev. Rul. 2007-3, page **[insert number]**, this Bulletin.

SECTION 2. BACKGROUND

.01 In Rev. Rul. 2007-3, the Internal Revenue Service addressed the issue of when a taxpayer using an accrual method of accounting incurs a liability for services or insurance under § 461. The ruling holds that a liability for services or insurance is not fixed by the mere execution of a contract for the future provision of services or insurance. Instead, all the events have occurred that establish the fact of the liability

when (1) the event fixing the liability, whether that be the required performance or other event, occurs, or (2) payment is due, whichever happens earliest.

.02 Under § 446(e) and § 1.446-1(e)(2)(i) of the Income Tax Regulations, a taxpayer generally must secure the consent of the Commissioner before changing a method of accounting for federal income tax purposes. To obtain the Commissioner's consent to a change in method, §1.446-1(e)(3)(i) generally requires a taxpayer to file Form 3115, Application for Change in Accounting Method, during the taxable year in which the taxpayer wants to make the proposed change. Section 1.446-1(e)(3)(ii) authorizes the Commissioner to prescribe administrative procedures that provide the terms and conditions necessary for a taxpayer to obtain consent to change a method of accounting. The terms and conditions the Commissioner may prescribe include whether the change is to be made with a § 481(a) adjustment, and if so, the § 481(a) adjustment period, or on a cut-off basis.

.03 Rev. Proc. 2002-9, 2002-1 C.B. 327 (as modified and clarified by Announcement 2002-17, 2002-1 C.B. 561, modified and amplified by Rev. Proc. 2002-19, 2002-1 C.B. 696, and amplified, clarified and modified by Rev. Proc. 2002-54, 2002-2 C.B. 432) provides procedures under § 446(e) and §1.446-1(e) for obtaining the automatic consent of the Commissioner to change certain methods of accounting for federal income tax purposes. Specifically, Rev. Proc. 2002-9 applies to a taxpayer requesting the Commissioner's consent to change to a method of accounting described in the APPENDIX of that revenue procedure. Rev. Proc. 2002-9 is the exclusive procedure for a taxpayer within its scope to obtain the Commissioner's consent. See

Rev. Proc. 2002- 9, sections 1 and 4.01.

SECTION 3. SCOPE

This revenue procedure applies to any taxpayer that is currently treating the mere execution of a contract for services or insurance as establishing the fact of the liability under § 461 and wants to change its method of accounting for liabilities for services or insurance to comply with Rev. Rul. 2007-3.

SECTION 4. APPLICATION

.01 *In General.* A change in the treatment of liabilities for services or insurance to comply with Rev. Rul. 2007-3 is a change in method of accounting within the meaning of §§ 446 and 481 and the regulations issued thereunder. Accordingly, a taxpayer within the scope of this revenue procedure that wants to change its treatment of liabilities for services or insurance to comply with Rev. Rul. 2007-3 must obtain the consent of the Commissioner under § 446(e) and §1.446-1(e)(3).

.02 *Automatic Change.* A taxpayer within the scope of this revenue procedure that wants to change its method of accounting for liabilities for services or insurance must obtain the consent of the Commissioner by following the automatic consent procedures in Rev. Proc. 2002-9 (or its successor). For purposes of section 6.02(4)(a) of Rev. Proc. 2002-9, the taxpayer must include on line 1a of the Form 3115 the designated automatic accounting method change number 106.

SECTION 5. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2002-9 is modified and amplified to include in the APPENDIX the automatic change provided in this revenue procedure.

SECTION 6. EFFECTIVE DATE

This revenue procedure is effective for taxable years ending on or after December 31, 2006.

DRAFTING INFORMATION

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